YHAR

THE MARKET FOR RETAIL SYSTEMS OFFERED BY HARRIS INFORMATION SYSTEMS, INC.

A STUDY BY:

INPUT®

SEPTEMBER 15, 1984

I INTRODUCTION

A. BACKGROUND

- Harris Information Systems, Inc. provides a computing application system for retail softgoods stores which addresses both the merchandising and accounting needs of these stores. The system has been implemented on the IBM System 38 computer.

- The application system provided by Harris offers state of the art application techniques for the retail industry as well as straight forward and easy to use processing and inquiry capabilities.

B. PURPOSE OF STUDY

- The purpose of this study is to develop a market forecast for the present application system of Harris and for a version of this application system that would run on micro and offer the same relative set of capabilities in that market.

- The forecast for the present application system of Harris is to address:

  - Companies with retail stores having between $20 and $100 million of annual revenue that could use the System 38 turnkey.

  - Companies with between $5 and $20 million of annual revenue that might use a shared facility based on the Harris retail system.

Digitized by the Internet Archive
in 2015

https://archive.org/details/marketforretailsunse

- The forecast for the micro application system is to address companies with $1 to $5 million of annual revenue that might use a micro version of the Harris system.

- The study must estimate sales of retail application systems in one and three years and provide the estimates by geographic area.

- Estimates of penetration are to be based solely on the relative potential of the Harris system and not on the marketing and sales methods employed or on the ability to install and support prospects.

C. METHODOLOGY

- INPUT reviewed the application system planned for introduction by Harris in relation to systems being offered by other vendors.

- INPUT then reviewed files of information on plans for the use of applications in the retail industry as well as research that has been performed in this industry.

- Contacts were made with representatives of other firms and industry experts to explore and confirm assumptions and forecasts. Estimates of possible market penetration for the three groups of candidates were developed on the basis of this activity.

- The forecasts are provided by the geographic areas and revenue classes that are desirable to Harris.

II MANAGEMENT SUMMARY

A. LEVEL OF AUTOMATION

- Less than 50% of companies with annual revenues below $5 million from retail store operation recently reported that they use in-house computers. Many use service bureaus.

- Almost all companies of this type with revenues above $10 million annually have in-house computers.

- Interest in increasing the level of automation is high throughout the retail industry and plans to install a computing system are highest among companies with lower levels of revenue.

- The expectation among vendors serving this industry is that installations of computers will be high during the next one to two years and then fall somewhat, particularly for smaller stores since most of the firms that are prone to act will take steps during the next one to two years and be unlikely to change computers for three to five years thereafter.

B. PERCEIVED NEEDS

- The applications most often mentioned by firms across all market segments were AP and GL. Larger firms are more interested in merchandising applications.

- The companies that will acquire a computer for retail applications during the next few years are well disposed toward the use of turnkey systems or application packages. Over 50% of firms in this industry with development plans feels that they must consider such an approach according to a recent survey.

C. AUTOMATION PLANS

- The plans for automation mentioned by firms during recent surveys of the retail industry conducted by INPUT or obtained from other sources for this study included:

  - Very likely or likely to acquire or change their central or chief system in the next 12 months.

  - Possibly will acquire or change a central system in the next year.

  - Will acquire such a system in one to three or four years.

  - Keep using current system.

  - Upgrade current system.

  - Unsure.

- The central system included the hardware and software in use.

III BASIS OF THE MARKET FORECAST

- The total number of companies in the revenue groupings of interest to Harris were estimated from past INPUT studies and verified with a reasonableness test against Department of Commerce listings for SIC groups. These numbers are shown in Exhibit III-1.

- The number of companies in each of these groups that are likely to act to obtain or change their computing system was extrapolated from estimates obtained in recent surveys that established:

  - What percentage of samples of various sizes of companies would be interested in obtaining a complete retail accounting and merchandising system.

  - What percentage of the above samples would be very likely or likely to act independently to obtain a system during the next 12 months.

- The number of companies in the lowest revenue class has been increased to allow for the many independent stores that are not classified as retail apparel or general merchandise institutions, but who are interested in retail automation. This automation could involve a micro with a POS and/or application software.

- Other information collected in surveys of retail companies as well as the experience of INPUT was used to derive the percentages of companies that are likely to obtain or change systems in three years.

- Exhibit III-2 displays the results of this estimation process, the number of companies of interest which are likely to obtain or change computers in the next year or three years from now.

EXHIBIT III-1

ESTIMATE OF NUMBER OF STORES

SIZE OF COMPANY IN ANNUAL REVENUE IN $ MILLION	NUMBER OF STORES
1-5	16200
5-20	7560
20-50	1500
Above 50	650
TOTAL	25910

EXHIBIT III-2

POTENTIAL MARKET SIZE

SIZE OF COMPANY IN ANNUAL REVENUE IN $ MILLION	TOTAL NUMBER OF COMPANIES OF INTEREST	VERY LIKELY OR LIKELY TO OBTAIN OR CHANGE SYSTEM		
		1985	1986	1987
1-5	16200	3100	2617	2133
5-20	7560	960	796	631
20-50	1500	130	116	102
Above 50	650	43	42	40
TOTAL	25910	4233	3571	2906

- These estimates were reviewed with representatives of firms that sell consulting services, turnkey systems and application software to retail apparel and department stores and adjusted according to their comments.

- Exhibit III-3 displays estimates of what alternatives may be taken by firms that do not describe themselves as ready to change their central or chief data processing system in the next 12 months.

  - A sizable percentage of these companies might act in the next 12 months or will act in a period greater than 12 months.

  - A meaningful percentage are also ready to upgrade their systems.

- The market as a whole is oriented toward system change.

EXHIBIT III-3

ALTERNATIVES TO ACQUISITION OF A SYSTEM DURING THE NEXT 12 MONTHS

SIZE IN ANNUAL REVENUE	NUMBER LESS LIKELY TO ACT IN 1985	ALTERNATIVE AND PERCENTAGE WHO MAY CHOOSE ALTERNATIVE
1-5	13,100	a. 21 b. 20 c. 15 d. 35 e. 9
5-20	6,600	a. 19 b. 18 c. 23 d. 35 e. 5
20-50	1,370	a. 10 b. 14 c. 27 d. 42 e. 7
Above 50	607	a. 4 b. 8 c. 41 d. 38 e. 9

a. Will possibly act in next year.

b. Will act in period between 1 and 3 to 4 years.

c. Keep using current system (i.e., current central or main system).

d. Upgrade current system (in-house or service bureau).

e. Unsure.

IV PROJECTIONS OF POTENTIAL SALES

A. DESCRIPTION OF POTENTIAL SALES

- These include sales which Harris Information Systems might make if there were no limitations in:

  - Sales personnel to contact and sell these accounts.

  - Support personnel to install and support these accounts.

  - Funding to support this level of business.

- Potential sales could be reduced, particularly in three years by the introduction of new hardware systems by IBM that would be attractive and not compatible with the equipment being offered by Harris or by the development of new software application systems by competitive vendors.

- A competitor could also obtain a number of sales with a less attractive system due to their sales arguments or advertising.

B. PROJECTION

- Exhibit IV-1 provides a projection of potential acquisitions of systems by geographic area.

EXHIBIT IV-1

POTENTIAL ACQUISITION OF SYSTEMS BY REVENUE SIZE AND GEOGRAPHIC AREA

REVENUE SIZE / AREA	1-5	5-20	20-50	ABOVE 50
NEW ENGLAND				
1985	180	57	7	3
1986	152	46	6	2
1987	124	36	6	2
MID ATLANTIC				
1985	666	206	28	9
1986	563	171	25	9
1987	459	136	22	8
SOUTH				
1985	992	307	42	14
1986	837	255	37	14
1987	682	202	33	13
NORTH CENTRAL				
1985	741	229	31	10
1986	625	190	28	10
1987	510	151	24	10
WEST				
1985	521	161	22	7
1986	440	134	20	7
1987	358	106	17	7
TOTAL				
1985	3100	960	130	43
1986	2617	796	116	42
1987	2133	631	102	40

ALL IN $ MILLION

EXHIBIT IV-2

GEOGRAPHIC DIVISIONS

New England:	Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island
Mid-Atlantic:	New York, New Jersey, Pennsylvania
South:	Maryland, Delaware, District of Columbia, Virginia, West Virginia, Kentucky, Tennessee, North Carolina, South Carolina, Georgia, Florida, Atlanta, Mississippi, Louisiana, Arkansas, Oklahoma, Texas
North Central:	Ohio, Indiana, Illinois, Michigan, Wisconsin, Missouri, Iowa, Minnesota, North Dakota, South Dakota, Nebraska, Kansas
West:	Montana, Wyoming, Colorado, New Mexico, Arizona, Utah, Idaho, Washington, Oregon, Nevada, California

V CONCLUSIONS AND RECOMMENDATIONS

A. MARKET POTENTIAL

- The market potential for the IBM 38 retail turnkey system provided by Harris Information Systems is large enough to assure the company of growth.

- The issues that Harris must face include:

  - What geographical regions of the country should be the main focus of marketing?

  - What steps should be taken in other regions.

  - Should certain sizes of companies, revenue groupings, receive more attention from Harris?

- What should be done with other revenue groupings?

- INPUT would recommend that Harris focus its efforts first on the Mid Atlantic Region and next on the South and North Central regions based on a combination of:

  . The size of markets in those regions.

  . Proximity in terms of coverage.

  . The cost of supporting installations at remote, single sites.

- The size of the potential market in the West (particularly California) warrants the consideration of a dealer representative in that region if sales offices are not considered there.

- If the number of sales representatives are limited by funding, Harris may also wish to use dealers in the South and North Central Regions.

- Limited representatives or coverage may also make Harris concentrate on certain sizes or markets.

  - The market for systems in companies above $50 million in annual revenue might not be addressed as vigorously as the market between $20 and $50 million or the market between $5 and $20 million.

  - The market between $5 and $20 million, as shown in Exhibit IV-1 is sufficiently large enough for Harris to develop a program and advertising that promotes shared processing between two or more companies.

- The market for a micro version of the Harris system is substantial enough to warrant the introduction of such a system.

- In addition to providing a micro with a "down-sized" version of the Harris system, a micro could also be introduced by Harris which could be used within individual, small stores of a retail company. Such a system might be offered with POS or key entry to handle data entry and communication with the central system.

- This type of system would provide a separate source of business for Harris than addressed in this study. There are a substantial number of small stores owned by larger companies that would be candidates for such a system.

- Information about this type of system could be provided to prospects who were receiving information about the System 38 turnkey.

- Sales of a "down-sized" version of the Harris system on a micro designed for use by a smaller company with revenues of $1 to $5 million should be handled in a different manner than sales of micro systems for stores that were components of larger companies. The "down-sized" version might be sold through dealers in many areas in order to have extensive market coverage.